

MCDONALDS CORP
Form 10-Q
May 01, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-5231

McDONALD'S CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

36-2361282

(I.R.S. Employer
Identification No.)

One McDonald's Plaza

Oak Brook, Illinois

(Address of Principal Executive Offices)

(630) 623-3000

(Registrant's Telephone Number, Including Area Code)

60523

(Zip Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

1,002,548,921

(Number of shares of common stock
outstanding as of March 31, 2013)

Table of Contents

McDONALD'S CORPORATION

INDEX

| | Page Reference |
|---|----------------|
| <u>Part I. Financial Information</u> | |
| Item 1 – <u>Financial Statements</u> | |
| <u>Condensed consolidated balance sheet, March 31, 2013 (unaudited) and December 31, 2012</u> | <u>3</u> |
| <u>Condensed consolidated statement of net income (unaudited), quarters ended March 31, 2013 and 2012</u> | <u>4</u> |
| <u>Condensed consolidated statement of comprehensive income (unaudited), quarters ended March 31, 2013 and 2012</u> | <u>5</u> |
| <u>Condensed consolidated statement of cash flows (unaudited), quarters ended March 31, 2013 and 2012</u> | <u>6</u> |
| <u>Notes to condensed consolidated financial statements (unaudited)</u> | <u>7</u> |
| Item 2 – <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>10</u> |
| Item 3 – <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>22</u> |
| Item 4 – <u>Controls and Procedures</u> | <u>22</u> |
| <u>Part II. Other Information</u> | |
| Item 1 – <u>Legal Proceedings</u> | <u>23</u> |
| Item 1A – <u>Risk Factors</u> | <u>23</u> |
| Item 2 – <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>23</u> |
| Item 6 – <u>Exhibits</u> | <u>24</u> |
| <u>Signature</u> | <u>27</u> |

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Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEET

| In millions, except per share data | (unaudited) March 31, 2013 | December 31, 2012 |
|---|----------------------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and equivalents | \$1,869.3 | \$2,336.1 |
| Accounts and notes receivable | 1,230.0 | 1,375.3 |
| Inventories, at cost, not in excess of market | 105.2 | 121.7 |
| Prepaid expenses and other current assets | 986.7 | 1,089.0 |
| Total current assets | 4,191.2 | 4,922.1 |
| Other assets | | |
| Investments in and advances to affiliates | 1,290.4 | 1,380.5 |
| Goodwill | 2,789.5 | 2,804.0 |
| Miscellaneous | 1,562.6 | 1,602.7 |
| Total other assets | 5,642.5 | 5,787.2 |
| Property and equipment | | |
| Property and equipment, at cost | 38,095.8 | 38,491.1 |
| Accumulated depreciation and amortization | (13,805.7) | (13,813.9) |
| Net property and equipment | 24,290.1 | 24,677.2 |
| Total assets | \$34,123.8 | \$35,386.5 |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Accounts payable | \$831.6 | \$1,141.9 |
| Income taxes | 523.9 | 298.7 |
| Other taxes | 372.6 | 370.7 |
| Accrued interest | 140.2 | 217.0 |
| Accrued payroll and other liabilities | 1,148.8 | 1,374.8 |
| Total current liabilities | 3,017.1 | 3,403.1 |
| Long-term debt | 12,797.9 | 13,632.5 |
| Other long-term liabilities | 1,442.2 | 1,526.2 |
| Deferred income taxes | 1,638.4 | 1,531.1 |
| Shareholders' equity | | |
| Preferred stock, no par value; authorized—165.0 million shares; issued—none | — | — |
| Common stock, \$.01 par value; authorized—3.5 billion shares; issued 1,660.6 million shares | 16.6 | 16.6 |
| Additional paid-in capital | 5,852.7 | 5,778.9 |
| Retained earnings | 39,776.4 | 39,278.0 |
| Accumulated other comprehensive income | 393.8 | 796.4 |
| Common stock in treasury, at cost; 658.1 and 657.9 million shares | (30,811.3) | (30,576.3) |
| Total shareholders' equity | 15,228.2 | 15,293.6 |
| Total liabilities and shareholders' equity | \$34,123.8 | \$35,386.5 |
| See Notes to condensed consolidated financial statements. | | |

Table of Contents

CONDENSED CONSOLIDATED STATEMENT OF NET INCOME (UNAUDITED)

| In millions, except per share data | Quarters Ended | |
|---|-------------------|-----------|
| | March 31, 2013 | 2012 |
| Revenues | | |
| Sales by Company-operated restaurants | \$4,445.4 | \$4,432.2 |
| Revenues from franchised restaurants | 2,159.9 | 2,114.4 |
| Total revenues | 6,605.3 | 6,546.6 |
| Operating costs and expenses | | |
| Company-operated restaurant expenses | 3,726.0 | 3,654.4 |
| Franchised restaurants—occupancy expenses | 395.2 | 374.7 |
| Selling, general & administrative expenses | 596.5 | 592.5 |
| Other operating (income) expense, net | (61.9) | (39.6) |
| Total operating costs and expenses | 4,655.8 | 4,582.0 |
| Operating income | 1,949.5 | 1,964.6 |
| Interest expense | 128.1 | 128.9 |
| Nonoperating (income) expense, net | 4.6 | (11.8) |
| Income before provision for income taxes | 1,816.8 | 1,847.5 |
| Provision for income taxes | 546.6 | 580.8 |
| Net income | \$1,270.2 | \$1,266.7 |
| Earnings per common share-basic | \$1.27 | \$1.24 |
| Earnings per common share-diluted | \$1.26 | \$1.23 |
| Dividends declared per common share | \$0.77 | \$0.70 |
| Weighted average shares outstanding-basic | 1,002.7 | 1,018.2 |
| Weighted average shares outstanding-diluted | 1,010.8 | 1,030.0 |
| See Notes to condensed consolidated financial statements. | | |

Table of Contents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

| In millions | Quarters Ended | |
|--|-------------------|-----------|
| | March 31, 2013 | 2012 |
| Net income | \$1,270.2 | \$1,266.7 |
| Other comprehensive income (loss), net of tax | | |
| Foreign currency translation adjustments: | | |
| Gain (loss) recognized in accumulated other comprehensive income (AOCI), including net investment hedges | (386.4) | 352.5 |
| Foreign currency translation adjustments-net of tax benefit (expense) of \$(59.6) and \$(9.3) | (386.4) | 352.5 |
| Cash flow hedges: | | |
| Gain (loss) recognized in AOCI | (8.2) | (6.5) |
| Reclassification of (gain) loss to net income | (9.3) | 3.0 |
| Cash flow hedges-net of tax benefit (expense) of \$2.7 and \$1.9 | (17.5) | (3.5) |
| Defined benefit pension plans: | | |
| Gain (loss) recognized in AOCI | 1.2 | (0.6) |
| Reclassification of (gain) loss to net income | 0.1 | 1.1 |
| Defined benefit pension plans-net of tax benefit (expense) of \$(0.3) and \$0.8 | 1.3 | 0.5 |
| Total other comprehensive income (loss), net of tax | (402.6) | 349.5 |
| Comprehensive income | 867.6 | 1,616.2 |
| See Notes to condensed consolidated financial statements. | | |

Table of Contents

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

| In millions | Quarters Ended | |
|--|-------------------|------------|
| | March 31, 2013 | 2012 |
| Operating activities | | |
| Net income | \$1,270.2 | \$1,266.7 |
| Adjustments to reconcile to cash provided by operations | | |
| Charges and credits: | | |
| Depreciation and amortization | 391.1 | 364.7 |
| Deferred income taxes | 22.8 | 22.6 |
| Share-based compensation | 22.8 | 26.5 |
| Other | 67.0 | (48.9) |
| Changes in working capital items | (87.0) | 1.9 |
| Cash provided by operations | 1,686.9 | 1,633.5 |
| Investing activities | | |
| Capital expenditures | (634.2) | (588.4) |
| Sales and purchases of restaurant businesses and property sales | 45.5 | 9.7 |
| Other | 64.2 | (18.7) |
| Cash used for investing activities | (524.5) | (597.4) |
| Financing activities | | |
| Short-term borrowings and long-term financing issuances and repayments | (622.4) | 267.2 |
| Treasury stock purchases | (339.4) | (812.6) |
| Common stock dividends | (772.2) | (712.3) |
| Proceeds from stock option exercises | 112.9 | 84.4 |
| Excess tax benefit on share-based compensation | 52.4 | 46.7 |
| Other | (0.2) | (4.8) |
| Cash used for financing activities | (1,568.9) | (1,131.4) |
| Effect of exchange rates on cash and cash equivalents | (60.3) | 48.7 |
| Cash and equivalents decrease | (466.8) | (46.6) |
| Cash and equivalents at beginning of period | 2,336.1 | 2,335.7 |
| Cash and equivalents at end of period | \$1,869.3 | \$2,289.1 |
| See Notes to condensed consolidated financial statements. | | |

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Basis of Presentation

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Company's December 31, 2012 Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. The results for the quarter ended March 31, 2013 do not necessarily indicate the results that may be expected for the full year.

Restaurant Information

The following table presents restaurant information by ownership type:

| | | |
|--------------------------|--------|--------|
| Restaurants at March 31, | 2013 | 2012 |
| Conventional franchised | 19,893 | 19,487 |
| Developmental licensed | 4,420 | 3,965 |
| Foreign affiliated | 3,657 | 3,622 |
| Total Franchised | 27,970 | 27,074 |
| Company-operated | 6,595 | 6,443 |
| Systemwide restaurants | 34,565 | 33,517 |

The results of operations of restaurant businesses purchased and sold in transactions with franchisees were not material either individually or in the aggregate to the condensed consolidated financial statements for the periods prior to purchase and sale.

Per Common Share Information

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares.

Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation, calculated using the treasury stock method, of 8.1 million shares and 11.8 million shares for the first quarter 2013 and 2012, respectively. Stock options that would have been antidilutive and therefore were not included in the calculation of diluted weighted-average shares totaled 8.1 million shares and 4.7 million shares for the first quarter 2013 and 2012, respectively.

Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value. Fair value disclosures are reflected in a three-level hierarchy, maximizing the use of observable inputs and minimizing the use of unobservable inputs. The Company did not have any significant changes to the valuation techniques used to measure fair value as described in the Company's December 31, 2012 Annual Report on Form 10-K.

Certain Financial Assets and Liabilities Measured at Fair Value

The following table presents financial assets and liabilities measured at fair value on a recurring basis:

| In millions | Level 1 | Level 2 | Carrying Value |
|---------------------------------|---------|----------|----------------|
| March 31, 2013 | | | |
| Investments | 166.7 | | 166.7 |
| Derivative assets | 150.6 | \$ 111.1 | 261.7 |
| Total assets at fair value | \$317.3 | \$ 111.1 | \$ 428.4 |
| Derivative liabilities | | \$(56.6) | \$(56.6) |
| Total liabilities at fair value | | \$(56.6) | \$(56.6) |

Certain Financial Assets and Liabilities not Measured at Fair Value

At March 31, 2013, the fair value of the Company's debt obligations was estimated at \$14.6 billion, compared to a carrying amount of \$12.8 billion. The fair value was based upon quoted market prices, Level 2, within the valuation hierarchy. The carrying amounts of cash and equivalents and notes receivable approximate fair value.

Table of Contents**Financial Instruments and Hedging Activities**

The Company is exposed to global market risks, including the effect of changes in foreign currency exchange rates, interest rates, equity prices, and commodity prices. The Company uses foreign currency denominated debt and derivative instruments to mitigate the impact of these changes. The Company does not hold or issue derivatives for trading purposes.

The following table presents the fair values of derivative instruments included on the Consolidated balance sheet:

| In millions | Derivative Assets | | Derivative Liabilities | |
|---|-------------------|----------------------|------------------------|----------------------|
| | March 31, 2013 | December 31, 2012 | March 31, 2013 | December 31, 2012 |
| Total derivatives designated as hedging instruments | \$106.5 | \$85.1 | \$(55.3) | \$(35.8) |
| Total derivatives not designated as hedging instruments | 155.2 | 133.3 | (1.3) | (6.8) |
| Total derivatives | \$261.7 | \$218.4 | \$(56.6) | \$(42.6) |

The following table presents the pretax amounts affecting income and other comprehensive income ("OCI") for the quarters ended March 31, 2013 and 2012, respectively:

| In millions | Gain (Loss) Recognized in Accumulated OCI | | Gain (Loss) Reclassified into Income from Accumulated OCI | | Gain (Loss) Recognized in Income on Derivative ⁽¹⁾ | |
|--------------------------|---|---------|---|---------|---|---------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Cash Flow Hedges | \$(6.7) | \$(9.8) | \$13.5 | \$(4.4) | \$(3.3) | \$(2.5) |
| Net Investment Hedges | \$423.8 | \$(1.5) | \$— | \$— | | |
| Undesignated derivatives | | | | | \$19.8 | \$(3.8) |

(1) Includes amounts excluded from effectiveness testing, ineffectiveness, and undesignated gains (losses).

Fair Value Hedges

The Company enters into fair value hedges which convert a portion of its fixed-rate debt into floating-rate debt by use of interest rate swaps. At March 31, 2013, \$1.8 billion of the Company's outstanding fixed-rate debt was effectively converted. For the quarter ended March 31, 2013, the Company recognized a \$6.5 million loss on fair value interest rate swaps, which was exactly offset by a corresponding gain in the fair value of the hedged debt instruments.

Cash Flow Hedges

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. To protect against the reduction in value of forecasted foreign currency cash flows (such as royalties denominated in foreign currencies), the Company uses foreign currency forwards and foreign currency options to hedge a portion of anticipated exposures. The hedges cover the next 19 months for certain exposures and are denominated in various currencies. As of March 31, 2013, the Company had derivatives outstanding with an equivalent notional amount of \$670.7 million that hedged a portion of forecasted foreign currency denominated royalties.

The Company uses cross-currency swaps to hedge the risk of cash flows associated with certain foreign currency denominated debt, including forecasted interest payments, and has elected cash flow hedge accounting. The hedges cover periods up to 56 months and have an equivalent notional amount of \$327.6 million.

The Company manages its exposure to energy-related transactions in certain markets by entering into commodity forwards and has elected cash flow hedge accounting. The hedges cover periods up to 22 years and have an equivalent gross notional amount of \$901.5 million, comprised of offsetting purchases and sales of energy.

Based on market conditions at March 31, 2013, the \$17.8 million in cumulative cash flow hedging gains, after tax, is not expected to have a significant effect on earnings over the next 12 months.

Table of Contents**Net Investment Hedges**

The Company primarily uses foreign currency denominated debt (third party and intercompany) to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of OCI and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in OCI. As of March 31, 2013, \$7.7 billion of intercompany foreign currency denominated debt, \$3.7 billion of the Company's third party foreign currency denominated debt and \$818.2 million of derivatives were designated to hedge investments in certain foreign subsidiaries and affiliates.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by its derivative counterparties. The Company did not have significant exposure to any individual counterparty at March 31, 2013 and has master agreements that contain netting arrangements. For financial reporting purposes, the Company presents gross derivative balances in the financial statements and supplementary data, including for counterparties subject to netting arrangements.

Segment Information

The Company franchises and operates McDonald's restaurants in the global restaurant industry. The following table presents the Company's revenues and operating income by geographic segment. The APMEA segment represents operations in Asia/Pacific, Middle East and Africa. Other Countries & Corporate represents operations in Canada and Latin America, as well as Corporate activities.

| In millions | Quarters Ended | |
|-----------------------------|----------------|-----------|
| | March 31, | |
| | 2013 | 2012 |
| Revenues | | |
| U.S. | \$2,088.5 | \$2,102.3 |
| Europe | 2,586.4 | 2,535.5 |
| APMEA | 1,593.7 | 1,556.6 |
| Other Countries & Corporate | 336.7 | 352.2 |
| Total revenues | \$6,605.3 | \$6,546.6 |
| Operating Income | | |
| U.S. | \$844.7 | \$871.3 |
| Europe | 708.1 | 699.3 |
| APMEA | 381.9 | 383.9 |
| Other Countries & Corporate | 14.8 | 10.1 |
| Total operating income | \$1,949.5 | \$1,964.6 |

Subsequent Events

The Company evaluated subsequent events through the date the financial statements were issued and filed with the Securities and Exchange Commission. In April 2013, the Company agreed to issue \$500 million of 30-year U.S. Dollar-denominated bonds, which are expected to settle in early May 2013. There were no other subsequent events that required recognition or disclosure.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company franchises and operates McDonald's restaurants. Of the 34,565 restaurants in 119 countries at March 31, 2013, 27,970 were licensed to franchisees (including 19,893 franchised to conventional franchisees, 4,420 licensed to developmental licensees and 3,657 licensed to foreign affiliates ("affiliates") – primarily Japan) and 6,595 were operated by the Company. Under our conventional franchise arrangement, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and décor of their restaurant businesses, and by reinvesting in the business over time. The Company owns the land and building or secures long-term leases for both Company-operated and conventional franchised restaurant sites. This maintains long-term occupancy rights, helps control related costs and assists in alignment with franchisees. In certain circumstances, the Company participates in reinvestment for conventional franchised restaurants. Under our developmental license arrangement, licensees provide capital for the entire business, including the real estate interest, and the Company has no capital invested. In addition, the Company has an equity investment in a limited number of affiliates that invest in real estate and operate and/or franchise restaurants within a market.

We view ourselves primarily as a franchisor and believe franchising is important to delivering great, locally-relevant customer experiences and driving profitability. However, directly operating restaurants is paramount to being a credible franchisor and is essential to providing Company personnel with restaurant operations experience. In our Company-operated restaurants, and in collaboration with franchisees, we further develop and refine operating standards, marketing concepts and product and pricing strategies, so that only those that we believe are most beneficial are introduced in the restaurants. We continually review, and as appropriate adjust, our mix of Company-operated and franchised restaurants to help optimize overall performance.

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales along with minimum rent payments and initial fees. Revenues from restaurants licensed to affiliates and developmental licensees include a royalty based on a percent of sales and generally include initial fees. Fees vary by type of site, amount of Company investment, if any, and local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise/license agreements that generally have 20-year terms.

The business is managed as distinct geographic segments. Significant reportable segments include the United States ("U.S."), Europe, and Asia/Pacific, Middle East and Africa ("APMEA"). In addition, throughout this report we present "Other Countries & Corporate," which includes operations in Canada and Latin America, as well as Corporate activities. For the quarter ended March 31, 2013, the U.S., Europe and APMEA segments accounted for 32%, 39% and 24% of total revenues, respectively.

Strategic Direction and Financial Performance

The strength of the alignment between the Company, its franchisees and suppliers (collectively referred to as the "System") has been key to McDonald's success. This business model enables McDonald's to consistently deliver locally-relevant restaurant experiences to customers and be an integral part of the communities we serve. In addition, it facilitates our ability to identify, implement and scale innovative ideas that meet customers' changing needs and preferences.

McDonald's customer-focused Plan to Win ("Plan") provides a common framework for our global business while allowing for local adaptation. Through the execution of multiple initiatives surrounding the five pillars of our Plan (People, Products, Place, Price and Promotion), we have enhanced the restaurant experience for customers worldwide and grown comparable sales and customer visits in each of the last nine years. This Plan, combined with financial discipline, has delivered strong results for our shareholders since its inception.

The Company's global growth priorities under the Plan include: optimizing our menu with compelling food and beverage offerings, modernizing the customer experience by upgrading nearly every aspect of our restaurants from service to designs, and broadening our accessibility through continued convenience, new store expansion and value initiatives. We believe these priorities are relevant, actionable and, combined with our competitive advantages, will drive long-term sustainable profitable growth. We remain committed to pursuing strategies and investments that strengthen our business momentum over the long term.

In the quarter, global economic headwinds pressured performance, with global comparable sales and guest counts decreasing 1.0% and 1.9%, respectively. The Company also faced strong prior year comparable sales performance that included an additional day in 2012 due to leap year. Comparable sales are driven by changes in guest counts and average check, which are affected by changes in pricing and product mix. Generally, the goal is to achieve a balanced contribution from both guest counts and average check.

Comparable sales growth is needed to realize margin leverage. Although top-line comparisons with 2012 will begin to ease, we expect the challenging global economic environment to persist and the Informal Eating Out ("IEO") segment in many markets to remain flat or decline. These circumstances, combined with cost pressures, are expected to impact margins throughout 2013. Despite the challenges inherent in the external environment, we continue our efforts to build market share by leveraging our scale and strength to pursue opportunities within our global growth priorities.

Table of Contents

In the U.S., first quarter 2013 comparable sales decreased 1.2% due in part to the challenging eating-out environment. A balanced offering of premium, core, limited-time offers and compelling value options, including the addition of the new Grilled Onion Cheddar burger and the Hot n' Spicy McChicken to the Dollar Menu, contributed positively to the quarter's results. Looking ahead, the U.S. is focused on menu and convenience initiatives to drive performance. Additionally, ongoing restaurant reimagining and customer service initiatives continue to be a priority in enhancing the customer experience.

In Europe, first quarter 2013 comparable sales decreased 1.1%, as positive results in the U.K. and Russia were more than offset by weaker performance in Germany, France and many other markets due to continuing economic uncertainty. Moving forward, Europe's business plans emphasize value across all day parts, offer compelling premium products and expand the brand's presence through extended operating hours and new restaurant growth. In addition, Europe continues to focus on enhancing the customer experience through ongoing restaurant reimagining and technology initiatives.

In APMEA, first quarter 2013 comparable sales decreased 3.3% primarily due to ongoing weakness in Japan and negative results in China. APMEA remains focused on driving performance by offering unique value platforms, accelerating growth at breakfast, modernizing the customer experience through ongoing restaurant reimagining, and broadening accessibility through service and convenience initiatives and new restaurant development.

First Quarter Operating Results Included:

• Global comparable sales decreased 1.0%.

• Consolidated revenues increased 1% (1% in constant currencies).

• Consolidated operating income decreased 1% (flat in constant currencies).

• Diluted earnings per share was \$1.26, up 2% (3% in constant currencies). Foreign currency translation had a negative impact of \$0.01 on diluted earnings per share.

• The Company paid total dividends of \$0.77 per share or \$772.2 million and repurchased 3.7 million shares for \$354.3 million.

Outlook

While the Company does not provide specific guidance on earnings per share, the following information is provided to assist in forecasting the Company's future results.

Changes in Systemwide sales are driven by comparable sales and net restaurant unit expansion. The Company expects net restaurant additions to add approximately 2.5 percentage points to 2013 Systemwide sales growth (in constant currencies), most of which will be due to the 1,135 net traditional restaurants added in 2012.

The Company does not generally provide specific guidance on changes in comparable sales. However, as a perspective, assuming no change in cost structure, a 1 percentage point increase in comparable sales for either the U.S. or Europe would increase annual diluted earnings per share by about 4 cents.

With about 75% of McDonald's grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company's commodity costs. For the full year 2013, the total basket of goods cost is expected to increase 1.5-2.5% in the U.S. and 2.5-3.5% in Europe.

- The Company expects full-year 2013 selling, general and administrative expenses to increase approximately 2-3% in constant currencies, with fluctuations expected between the quarters.
- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full year 2013 to increase approximately 3-4% compared with 2012.

A significant part of the Company's operating income is generated outside the U.S., and about 35% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 65% of the Company's operating income outside the U.S. If all four of these currencies moved by 10% in the same direction, the Company's annual diluted earnings per share would change by about 25 cents.

• The Company expects the effective income tax rate for the full-year 2013 to be 31% to 33%. Some volatility may be experienced between the quarters resulting in a quarterly tax rate that is outside the annual range.

Table of Contents

The Company expects capital expenditures for 2013 to be approximately \$3.2 billion. Over half of this amount will be used to open new restaurants. The Company expects to open between 1,500 - 1,600 restaurants including about 500 restaurants in affiliated and developmental licensee markets, such as Japan and Latin America, where the Company does not fund any capital expenditures. The Company expects net additions of between 1,200 - 1,300 traditional restaurants. The remaining capital will be used to reinvest in existing locations, in part through reimaging. More than 1,600 restaurants worldwide are expected to be reimaged, including locations in affiliated and developmental licensee markets that require no capital investment from the Company.

The Following Definitions Apply to these Terms as Used Throughout this Form 10-Q:

Information in constant currency is calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results excluding the effect of foreign currency translation and bases incentive compensation plans on these results because they believe this better represents the Company's underlying business trends.

Systemwide sales include sales at all restaurants, whether operated by the Company or by franchisees. While franchised sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base.

Comparable sales represent sales at all restaurants and comparable guest counts represent the number of transactions at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimaging or remodeling, rebuilding, road construction and natural disasters. Comparable sales exclude the impact of currency translation. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. Management reviews the increase or decrease in comparable sales and comparable guest counts compared with the same period in the prior year to assess business trends. The number of weekdays and weekend days, referred to as the calendar shift/trading day adjustment, can impact comparable sales and guest counts. In addition, the timing of holidays can also impact comparable sales and guest counts.

Table of Contents

CONSOLIDATED OPERATING RESULTS

| Dollars in millions, except per share data | Quarter Ended March 31, 2013 | | |
|--|---------------------------------|-------------------------|---|
| | Amount | Increase/ (Decrease) | |
| Revenues | | | |
| Sales by Company-operated restaurants | \$4,445.4 | 0 | % |
| Revenues from franchised restaurants | 2,159.9 | 2 | |
| Total revenues | 6,605.3 | 1 | |
| Operating costs and expenses | | | |
| Company-operated restaurant expenses | 3,726.0 | 2 | |
| Franchised restaurants—occupancy expenses | 395.2 | 6 | |
| Selling, general & administrative expenses | 596.5 | 1 | |
| Other operating (income) expense, net | (61.9) | (56) |) |
| Total operating costs and expenses | 4,655.8 | 2 | |
| Operating income | 1,949.5 | (1) |) |
| Interest expense | 128.1 | (1) |) |
| Nonoperating (income) expense, net | 4.6 | n/m | |
| Income before provision for income taxes | 1,816.8 | (2) |) |
| Provision for income taxes | 546.6 | (6) |) |
| Net income | \$1,270.2 | 0 | % |
| Earnings per common share-basic | \$1.27 | 2 | % |
| Earnings per common share-diluted | \$1.26 | 2 | % |

n/m Not meaningful

Impact of Foreign Currency Translation

While changes in foreign currency exchange rates affect reported results, McDonald's mitigates exposures, where practical, by financing in local currencies, hedging certain foreign-denominated cash flows, and purchasing goods and services in local currencies. Management reviews and analyzes business results excluding the effect of foreign currency translation and bases incentive compensation plans on these results because they believe this better represents the Company's underlying business trends. Results excluding the effect of foreign currency translation (also referred to as constant currency) are calculated by translating current year results at prior year average exchange rates.

IMPACT OF FOREIGN CURRENCY TRANSLATION

Dollars in millions, except per share data

| Quarters Ended March 31, | 2013 | 2012 | Currency Translation |
|--|-----------|-----------|-------------------------|
| | | | (Cost) 2013 |
| Revenues | \$6,605.3 | \$6,546.6 | \$(6.0) |
| Company-operated margins | 719.4 | 777.8 | (0.8) |
| Franchised margins | 1,764.7 | 1,739.7 | (12.0) |
| Selling, general & administrative expenses | 596.5 | 592.5 | (0.7) |
| Operating income | 1,949.5 | 1,964.6 | (15.8) |
| Net income | 1,270.2 | 1,266.7 | (11.3) |
| Earnings per share-diluted | \$1.26 | \$1.23 | \$(0.01) |

Foreign currency translation had a minimal impact on consolidated operating results for the quarter.

Table of Contents

Net Income and Diluted Earnings per Common Share

For the quarter, net income was flat (increased 1% in constant currencies) at \$1,270.2 million and diluted earnings per share increased 2% (3% in constant currencies) to \$1.26. Foreign currency translation had a negative impact of \$0.01 per share on diluted earnings per share. Diluted earnings per share growth in constant currencies benefited from a 2% decrease in diluted weighted average shares outstanding.

During the quarter, the Company paid a quarterly dividend of \$0.77 per share or \$772.2 million and repurchased 3.7 million shares of its stock for \$354.3 million.

Revenues

Revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees.

Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales along with minimum rent payments and initial fees. Revenues from franchised restaurants that are licensed to affiliates and developmental licensees include a royalty based on a percent of sales and generally include initial fees.

REVENUES

Dollars in millions

| Quarters Ended March 31, | 2013 | 2012 | Inc/ (Dec) | Inc/ (Dec) Excluding Currency Translation |
|-----------------------------|-----------|-----------|---------------|--|
| Company-operated sales | | | | |
| U.S. | \$1,071.7 | \$1,089.6 | (2)% | (2)% |
| Europe | 1,862.4 | 1,834.6 | 2 | 2 |
| APMEA | 1,331.6 | 1,306.5 | 2 | 1 |
| Other Countries & Corporate | 179.7 | 201.5 | (11) | (10) |
| Total | \$4,445.4 | \$4,432.2 | 0 % | 0 % |
| Franchised revenues | | | | |
| U.S. | \$1,016.8 | \$1,012.7 | 0 % | 0 % |
| Europe | 724.0 | 700.9 | 3 | 3 |
| APMEA | 262.1 | 250.1 | 5 | 8 |
| Other Countries & Corporate | 157.0 | 150.7 | 4 | 8 |
| Total | \$2,159.9 | \$2,114.4 | 2 % | 3 % |
| Total revenues | | | | |
| U.S. | \$2,088.5 | \$2,102.3 | (1)% | (1)% |
| Europe | 2,586.4 | 2,535.5 | 2 | 2 |
| APMEA | 1,593.7 | 1,556.6 | 2 | 2 |
| Other Countries & Corporate | 336.7 | 352.2 | (4) | (2) |
| Total | \$6,605.3 | \$6,546.6 | 1 % | 1 % |

Consolidated revenues increased 1% (1% in constant currencies) for the quarter. The revenue growth was driven by expansion, partly offset by negative comparable sales, which were impacted by one additional day in 2012 due to leap year.

In the U.S., the decrease in revenues for the quarter was due to negative comparable sales reflecting the challenging eating-out environment. The U.S. remained focused on a balanced approach to value and menu variety, while enhancing the customer experience through ongoing restaurant reimagining.

In Europe, the constant currency increase in revenues for the quarter was driven by expansion, primarily in Russia (which is entirely Company-operated). Revenue growth was negatively impacted by a decrease in comparable sales, as positive results in the U.K. and Russia were more than offset by weaker performance in Germany, France and many other markets due to ongoing economic uncertainty.

In APMEA, the constant currency increase in revenues for the quarter was driven by expansion, partly offset by the impact of negative comparable sales including China, which reflected the consumer sensitivity around the supply chain issue in the chicken industry.

Table of Contents

The following table presents the percent change in comparable sales for the quarters ended March 31, 2013 and 2012:
COMPARABLE SALES

| Quarters Ended March 31,* | Increase/ (Decrease) | |
|-----------------------------|----------------------|-------|
| | 2013 | 2012 |
| U.S. | (1.2)% | 8.9 % |
| Europe | (1.1) | 5.0 |
| APMEA | (3.3) | 5.5 |
| Other Countries & Corporate | 5.6 | 11.6 |
| Total | (1.0)% | 7.3 % |

* On a consolidated basis, comparable guest counts decreased 1.9% and increased 4.8% for the quarters 2013 and 2012, respectively.

The following table presents the percent change in Systemwide sales for the quarter ended March 31, 2013:
SYSTEMWIDE SALES

| Quarter Ended March 31, 2013 | Inc/ (Dec) | Increase Excluding Currency Translation | |
|------------------------------|---------------|--|---|
| | | | % |
| U.S. | 0 | %0 | % |
| Europe | 2 | 2 | |
| APMEA | (3) | 1 | |
| Other Countries & Corporate | 3 | 9 | |
| Total | 0 | %2 | % |

Franchised sales are not recorded as revenues by the Company, but are the basis on which the Company calculates and records franchised revenues and are indicative of the health of the franchisee base. The following table presents Franchised sales and the related increases/(decreases):

FRANCHISED SALES

Dollars in millions

| Quarters Ended March 31, | 2013 | 2012 | Inc/ (Dec) | Increase Excluding Currency Translation | |
|-----------------------------|------------|------------|---------------|--|---|
| | | | | | % |
| U.S. | \$7,376.6 | \$7,377.5 | 0 | %0 | % |
| Europe | 4,064.6 | 3,985.8 | 2 | 1 | |
| APMEA | 3,236.6 | 3,425.7 | (6) | 2 | |
| Other Countries & Corporate | 1,978.0 | 1,889.1 | 5 | 11 | |
| Total* | \$16,655.8 | \$16,678.1 | 0 | %2 | % |

Sales from developmental licensed restaurants or foreign affiliated markets where the Company earns a royalty based on a percent of sales were \$3,726.4 million and \$3,891.9 million in 2013 and 2012, respectively. The remaining balance of franchised sales is derived from conventional franchised restaurants where the Company earns rent and royalties based primarily on a percent of sales.

Table of Contents

Restaurant Margins

FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS

Dollars in millions

| Quarters Ended March 31, | Percent | | Amount | | Inc/ (Dec) | Inc/ (Dec) Excluding Currency Translation | | |
|-----------------------------|---------|--------|-----------|-----------|---------------|--|-----|----|
| | 2013 | 2012 | 2013 | 2012 | | | | |
| Franchised | | | | | | | | |
| U.S. | 82.9 % | 83.4 % | \$843.2 | \$844.4 | 0 | % | 0 | % |
| Europe | 77.1 | 77.9 | 557.9 | 545.7 | 2 | | 2 | |
| APMEA | 87.7 | 88.6 | 229.9 | 221.6 | 4 | | 8 | |
| Other Countries & Corporate | 85.2 | 85.0 | 133.7 | 128.0 | 4 | | 9 | |
| Total | 81.7 % | 82.3 % | \$1,764.7 | \$1,739.7 | 1 | % | 2 | % |
| Company-operated | | | | | | | | |
| U.S. | 17.4 % | 18.8 % | \$186.8 | \$204.7 | (9 |)% | (9 |)% |
| Europe | 16.7 | 17.5 | 311.7 | 321.7 | (3 |) | (3 |) |
| APMEA | 14.6 | 16.9 | 194.1 | 220.4 | (12 |) | (12 |) |
| Other Countries & Corporate | 14.9 | 15.4 | 26.8 | 31.0 | (14 |) | (13 |) |
| Total | 16.2 % | 17.5 % | \$719.4 | \$777.8 | (8 |)% | (7 |)% |

Franchised margin dollars increased \$25.0 million or 1% (2% in constant currencies) for the quarter.

In the U.S., the franchised margin percent decreased for the quarter due to higher depreciation related to reimaging and negative comparable sales performance.

In Europe, while the franchised margin dollars increased for the quarter, the margin percent decreased due to higher rent expense and negative comparable sales performance.

In APMEA, while the franchised margin dollars increased for the quarter, the margin percent decreased primarily due to negative comparable sales performance in Japan and the impact of the weaker Yen, which reduced Japan's favorable contribution to the segment's margin percent.

Company-operated margin dollars decreased \$58.4 million or 8% (7% in constant currencies) for the quarter, reflecting negative comparable sales performance, which impacted our ability to overcome cost pressures.

In the U.S., the Company-operated margin percent for the quarter decreased primarily due to higher labor and other operating costs.

In Europe, the Company-operated margin percent for the quarter decreased due to higher crew labor, commodity costs and depreciation related to reimaging.

In APMEA, the Company-operated margin percent for the quarter decreased due to the acceleration of new restaurant openings, mainly in China, and higher crew labor, occupancy and other operating costs throughout the segment.

Similar to other markets, new restaurants in China initially open with lower margins that grow significantly over time.

Table of Contents

The following table presents Company-operated restaurant margin components as a percent of sales:

CONSOLIDATED COMPANY-OPERATED RESTAURANT EXPENSES AND MARGINS AS A PERCENT OF SALES

| Quarters Ended March 31, | 2013 | | 2012 | |
|--------------------------------------|------|---|------|---|
| Food & paper | 33.8 | % | 34.3 | % |
| Payroll & employee benefits | 26.3 | | 25.6 | |
| Occupancy & other operating expenses | 23.7 | | 22.6 | |
| Total expenses | 83.8 | % | 82.5 | % |
| Company-operated margins | 16.2 | % | 17.5 | % |

Selling, General & Administrative Expenses

Selling, general and administrative expenses increased 1% (1% in constant currencies) for the quarter. Selling, general and administrative expenses as a percent of revenues were 9.0% and 9.1% for the quarters 2013 and 2012, respectively, and 2.8% as a percent of Systemwide sales for the quarters 2013 and 2012.

Other Operating (Income) Expense, Net

OTHER OPERATING (INCOME) EXPENSE, NET

Dollars in millions

| Quarters Ended March 31, | 2013 | 2012 |
|--|----------|----------|
| Gains on sales of restaurant businesses | \$(52.7) | \$(15.7) |
| Equity in earnings of unconsolidated affiliates | (18.7) | (40.4) |
| Asset dispositions and other (income) expense, net | 9.5 | 16.5 |
| Total | \$(61.9) | \$(39.6) |

Gains on sales of restaurant businesses increased for the quarter primarily in Australia and China, and to a lesser extent, Europe. The sale of restaurants in China were to a developmental licensee. The decrease in equity in earnings of unconsolidated affiliates for the quarter reflected lower operating results, primarily in Japan.

Operating Income

OPERATING INCOME

Dollars in millions

| Quarters Ended March 31, | 2013 | 2012 | Inc/ (Dec) | Inc/ (Dec) |
|-----------------------------|-----------|-----------|------------|-------------|
| | | | (Dec) | Excluding |
| | | | | Currency |
| | | | | Translation |
| U.S. | \$844.7 | \$871.3 | (3)% | (3)% |
| Europe | 708.1 | 699.3 | 1 | 1 |
| APMEA | 381.9 | 383.9 | (1) | 2 |
| Other Countries & Corporate | 14.8 | 10.1 | 45 | n/m |
| Total | \$1,949.5 | \$1,964.6 | (1)% | 0 % |

In the U.S., operating results decreased for the quarter primarily due to lower Company-operated margin dollars.

In Europe, constant currency operating results for the quarter were driven by increases in franchised margin dollars and gains on sales of restaurants, partly offset by lower Company-operated margin dollars.

In APMEA, constant currency operating results for the quarter were driven by increases in gains on sales of restaurants and franchised margin dollars, partly offset by a decrease in Company-operated margin dollars and lower operating results in Japan.

Table of Contents**Combined Operating Margin**

Combined operating margin is defined as operating income as a percent of total revenues. Combined operating margin was 29.5% and 30.0% for the quarters 2013 and 2012, respectively.

Interest Expense

Interest expense decreased 1% for the quarter primarily due to lower average interest rates, partly offset by higher average debt balances.

Nonoperating (Income) Expense, Net**NONOPERATING (INCOME) EXPENSE, NET**

Dollars in millions

| Quarters Ended March 31, | 2013 | 2012 |
|---------------------------------------|---------|----------|
| Interest Income | \$(4.0) | \$(11.5) |
| Foreign currency and hedging activity | 0.5 | 0.5 |
| Other (income) expense, net | 8.1 | (0.8) |
| Total | \$4.6 | \$(11.8) |

Income Taxes

The effective income tax rate was 30.1% and 31.4% for the quarters 2013 and 2012. The effective income tax rate for the quarter 2013 included a tax benefit of nearly \$50 million, reflecting the retroactive impact of certain tax benefits as a result of the American Taxpayer Relief Act of 2012.

Cash Flows and Financial Position

The Company generates significant cash from operations and has substantial credit capacity to fund operating and discretionary spending such as capital expenditures, debt repayments, dividends and share repurchases.

Cash provided by operations totaled \$1.7 billion and exceeded capital expenditures by \$1.1 billion for the first quarter 2013. Cash provided by operations increased \$53.4 million compared with the first quarter 2012.

Cash used for investing activities totaled \$524.5 million for the first quarter 2013, a decrease of \$72.9 million compared with the first quarter 2012, primarily due to the maturity of certain short-term time deposits and fewer purchases of restaurant businesses, partly offset by higher capital expenditures.

Cash used for financing activities totaled \$1.6 billion for the first quarter 2013, an increase of \$437.5 million compared with the first quarter 2012, primarily due to debt repayments in 2013, partly offset by lower treasury stock purchases.

Debt obligations at March 31, 2013 totaled \$12.8 billion compared with \$13.6 billion at December 31, 2012. The decrease was primarily due to net debt repayments of \$622.4 million with the remaining decrease due to the effect of changes in foreign currency exchange rates. In April 2013, the Company agreed to issue \$500 million of 30-year U.S. Dollar-denominated bonds, which are expected to settle in early May 2013.

Table of Contents

Risk Factors and Cautionary Statement Regarding Forward-Looking Statements

The information in this report includes forward-looking statements about our plans and future performance, including those under Outlook. These statements use such words as “may,” “will,” “expect,” “believe” and “plan.” They reflect our expectations and speak only as of the date of this report. We do not undertake to update them. Our expectations (or the underlying assumptions) may change or not be realized, and you should not rely unduly on forward-looking statements.

Our business and execution of our strategic plan, the Plan to Win, are subject to risks. The most important of these is whether we can remain relevant and a brand customers trust. Meeting customer expectations is complicated by the risks inherent in our global operating environment. Our business model is built around growing comparable sales to realize margin leverage, and we expect unfavorable global economic conditions to continue to pressure performance, with continued flat or contracting IEO segments in many markets, broad-based consumer caution, heightened price sensitivity and competitive activity. These circumstances, combined with increasing labor and occupancy costs and volatility in commodity prices, are expected to continue to pressure margins throughout 2013.

We have the added challenge of the cultural and regulatory differences that exist within and among the more than 100 countries where we operate. Initiatives we undertake may not have universal appeal among different segments of our customer base and can drive unanticipated changes in guest counts and customer perceptions. Our operations, plans and results are also affected by regulatory, tax and other initiatives around the world, notably the focus on nutritional content and the production, processing and preparation of food “from field to front counter,” as well as industry marketing practices.

These risks can have an impact both in the near- and long-term and are reflected in the following considerations and factors that we believe are most likely to affect our performance.

Our ability to remain a relevant and trusted brand and to increase sales and profits depends largely on how well we execute the Plan to Win and our global priorities.

The Plan to Win addresses the key drivers of our business and results - people, products, place, price and promotion - and we are focused on our three global priorities that represent the greatest opportunities under our Plan to Win: optimizing our menu, modernizing the customer experience and broadening accessibility to our brand. The quality of our execution depends mainly on the following:

Our ability to anticipate and respond effectively to trends or other factors that affect the IEO segment and our competitive position in the diverse markets we serve, such as spending patterns, demographic changes, trends in food preparation, consumer preferences and publicity about us, all of which can drive popular perceptions of our business or affect the willingness of other companies to enter into site, supply or other arrangements or alliances with us;

Our continued innovation in all aspects of the McDonald's experience, including particularly our menu offerings, and our ability to adapt our plans to deliver a locally-relevant experience in a highly competitive, value-driven operating environment;

The risks associated with our franchise business model, including whether our franchisees and developmental licensees will have the experience and financial resources to be effective operators and remain aligned with us on operating, promotional and capital-intensive initiatives and the potential impact on us if they experience food safety or other operational problems or project a brand image inconsistent with our values, particularly if our contractual and other rights and remedies are limited by law or otherwise, costly to exercise or subject to litigation;

The success of our tiered approach to menu offerings, as well as the impact of our competitors' actions, including in response to our menu changes, and our ability to continue robust menu development and manage the complexity of our restaurant operations;

Our ability to differentiate the McDonald's experience in a way that balances consumer value with margin levels, particularly in markets where pricing or cost pressures are significant;

- The impact of pricing, marketing and promotional plans on sales and margins and our ability to adjust these plans to respond quickly to changing economic and heightened competitive conditions;

Our ability to drive restaurant improvements that achieve optimal capacity, particularly during peak mealtime hours, and motivate our restaurant personnel and our franchisees to achieve consistency and high service levels so as to improve consumer perceptions of our ability to meet expectations for quality food served in clean and friendly

environments;

Whether we can complete our restaurant reimagining and rebuilding plans as projected, and whether we are able to identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants, as well as sales and profitability targets;

19

Table of Contents

The costs and risks associated with our increasing reliance on information systems (e.g., point-of-sale and other in-store systems or platforms) that support our restaurants and that we make available to franchisees along with related services, including the risk that we will not realize fully the benefits of the significant investments we are making to enhance the customer experience; the potential for system failures, programming errors, security breaches involving our systems or those of third-party system operators, and the heightened vulnerability to these problems in the case of systems we implement on a decentralized basis; legal and tax risks associated with providing information-related services to franchisees, including those relating to data protection and management; and litigation risk involving intellectual property rights or our rights and obligations to others under related contractual arrangements;

The success of our initiatives to support menu choice, physical activity and nutritional awareness and to address these and other matters of social responsibility in a way that communicates our values effectively and inspires trust and confidence;

Our ability to respond effectively to adverse perceptions about the quick-service category of the IEO segment or about our food (including its nutritional content and preparation), promotions and premiums, such as Happy Meal toys (collectively, our "products"), how we source the commodities we use, and our ability to manage the potential impact on McDonald's of food-borne illnesses or product safety issues;

The impact of campaigns by labor organizations and activists or the use of social media and other mobile communications and applications to promote adverse perceptions of our brand, our management or our suppliers, or to promote or threaten boycotts or other actions involving us or our suppliers;

The impact of events such as boycotts or protests, labor strikes and supply chain interruptions (including due to lack of supply or price increases) that can adversely affect us or the vendors, franchisees and others that are also part of the McDonald's System and whose performance has a material impact on our results;

Our ability to recruit and retain qualified personnel to manage our operations and growth; and

Our ability to leverage promotional or operating successes in individual markets into other markets in a timely and cost-effective way.

Our results and financial condition are affected by global and local market conditions, and the prolonged challenging economic environment can be expected to continue to pressure our results.

Our results of operations are substantially affected by economic conditions, both globally and in local markets, and conditions can also vary substantially by market. The current global environment has been characterized by persistently weak economies, high unemployment rates, inflationary pressures and volatility in financial markets. Many major economies, both advanced and developing, are also facing significant economic issues. These include, in the U.S., concerns about the federal deficit and the potential adverse effects of the spending cuts that became effective in early 2013. The Eurozone debt crisis continues to depress consumer and business confidence and spending in many markets. Important markets in Asia, which have been key drivers of global growth, have been experiencing declining growth rates. Uncertainty about the long-term investment environment could further depress capital investment and economic activity.

These conditions are adversely affecting sales and/or guest counts in many of our markets, including most of our major markets. To mitigate their impact, we have intensified our focus on value as a driver of guest counts through menu, pricing and promotional actions. These actions have adversely affected our margin percent, and margins will remain under pressure. The key factors that can affect our operations, plans and results in this environment are the following:

Whether our strategies will be effective in enabling the continued market share gains that we have included in our plans, while at the same time enabling us to achieve our targeted operating income growth despite the current adverse economic conditions, resurgent competitors and an increasingly complex, costly and competitive advertising environment;

The effectiveness of our supply chain management to assure reliable and sufficient product supply on favorable terms;

The impact on consumer disposable income levels and spending habits of governmental actions to manage national economic matters, whether through austerity or stimulus measures and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers;

• The impact on restaurant sales and margins of ongoing commodity price volatility, and the effectiveness of pricing, hedging and other actions taken to address this environment;

• The impact on our margins of labor costs and the long-term trend toward higher wages and social expenses in both mature and developing markets;

• The impact of foreign exchange and interest rates on our financial condition and results;

• The challenges and uncertainties associated with operating in developing markets, which may entail a relatively higher risk of political instability, economic volatility, crime, corruption and social and ethnic unrest, all of which are exacerbated in many cases by a lack of an independent and experienced judiciary and uncertainties in how local law is applied and enforced, including in areas most relevant to commercial transactions and foreign investment;

Table of Contents

The nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment charges that reduce our earnings;

The increasing focus on workplace practices and conditions, which may drive changes in practices or in the general commercial and regulatory environment that affect perceptions of our business or our cost of doing business, and our exposure to reputational and other harm as a result of practices of our franchisees;

The impact of changes in our debt levels on our credit ratings, interest expense, availability of acceptable counterparties, ability to obtain funding on favorable terms or our operating or financial flexibility, especially if lenders impose new operating or financial covenants; and

The impact of an exit from the Eurozone by any of the EU Member States, which could entail disruption to our business as the exiting Member State establishes a new currency and we, along with our suppliers, franchisees and others, address the challenges associated with redenomination.

Increasing legal and regulatory complexity will continue to affect our operations and results in material ways.

Our legal and regulatory environment worldwide exposes us to complex compliance, litigation and similar risks that affect our operations and results in material ways. In many of our markets, including the United States and Europe, we are subject to increasing regulation, which has increased our cost of doing business. In developing markets, we face the risks associated with new and untested laws and judicial systems. Among the more important regulatory and litigation risks we face and must manage are the following:

The cost, compliance and other risks associated with the often conflicting and highly prescriptive regulations we face, especially in the United States where inconsistent standards imposed by local, state and federal authorities can adversely affect popular perceptions of our business and increase our exposure to litigation or governmental investigations or proceedings;

The impact of new, potential or changing regulations that can affect our business plans, such as those relating to product packaging, marketing and the nutritional content and safety of our food and other products, as well as the risks and costs of our labeling and other disclosure practices, particularly given varying legal requirements and practices for testing and disclosure within our industry, ordinary variations in food preparation among our own restaurants, and the need to rely on the accuracy and completeness of information from third-party suppliers;

The impact of nutritional, health and other scientific inquiries and conclusions, which constantly evolve and often have contradictory implications, but nonetheless drive popular opinion, litigation and regulation, including taxation, in ways that could be material to our business;

The impact of litigation trends, particularly in our major markets, including class actions, labor, employment and personal injury claims, franchisee litigation, landlord/tenant disputes and intellectual property claims (including often aggressive or opportunistic attempts to enforce patents used in information technology systems); the relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings; the cost and other effects of settlements or judgments, which may require us to make disclosures or take other actions that may affect perceptions of our brand and products; and the scope and terms of insurance or indemnification protections that we may have;

Adverse results of pending or future litigation, including litigation challenging the composition and preparation of our products, or the appropriateness or accuracy of our marketing or other communication practices;

The risks and costs to us, our franchisees and our supply chain of the effects of climate change, as well as of increased focus by U.S. and overseas governmental and non-governmental organizations on environmental sustainability matters (e.g., climate change, land use, energy and water resources, packaging and waste, and animal health and welfare) and the increased pressure to make commitments or set targets and take actions to meet them, which could expose the Company to market, operational and execution costs or risks, particularly when actions are undertaken Systemwide;

- The increasing costs and other effects of compliance with U.S. and overseas regulations affecting our workforce and labor practices, including regulations relating to wage and hour practices, workplace conditions, healthcare, immigration, retirement and other employee benefits and unlawful workplace discrimination;
-

Disruptions in our operations or price volatility in a market that can result from governmental actions, such as price, foreign exchange or import-export controls, increased tariffs or government-mandated closure of our or our vendors' operations, and the cost and disruption of responding to governmental investigations or proceedings, whether or not they have merit;

The legal and compliance risks and costs associated with privacy, consumer data protection and similar laws, particularly as they apply to children, the potential costs (including the loss of consumer confidence) arising from alleged security breaches of our information systems, and the risk of criminal penalties or civil liability to consumers, employees or franchisees whose data is alleged to have been collected or used inappropriately;

The impact on our operations of tax and other regulations affecting capital flows, financial markets or financial institutions, which can limit our ability to manage and deploy our liquidity or increase our funding costs; and

Table of Contents

The impact of changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, changes in tax accounting or tax laws (or related authoritative interpretations), particularly if corporate tax reform becomes a key component of budgetary initiatives in the United States and elsewhere, and the impact of settlements of pending or any future adjustments proposed by the IRS or other taxing authorities in connection with our tax audits, all of which will depend on their timing, nature and scope.

Trading volatility and price of our common stock may be affected by many factors.

Many factors affect the volatility and price of our common stock in addition to our operating results and prospects.

The most important of these, some of which are outside our control, are the following:

• The continuing unfavorable global economic and volatile market conditions;

Governmental action or inaction in light of key indicators of economic activity or events that can significantly influence financial markets, particularly in the United States which is the principal trading market for our common stock, and media reports and commentary about economic or other matters, even when the matter in question does not directly relate to our business;

• Changes in financial or tax reporting and accounting principles or practices that materially affect our reported financial condition and results and investor perceptions of our performance;

Trading activity in our common stock or trading activity in derivative instruments with respect to our common stock or debt securities, which can be affected by market commentary (including commentary that may be unreliable or incomplete); unauthorized disclosures about our performance or plans, expectations about our business, our creditworthiness or investor confidence generally; actions by shareholders and others seeking to influence our business strategies; portfolio transactions in our stock by significant shareholders; or trading activity that results from the ordinary course rebalancing of stock indices in which McDonald's may be included, such as the S&P 500 Index and the Dow Jones Industrial Average;

• The impact of our stock repurchase program or dividend rate; and

• The impact on our results of other corporate actions, such as those we may take from time to time as part of our continuous review of our corporate structure in light of business, legal and tax considerations.

Our results and prospects can be adversely affected by events such as severe weather conditions, natural disasters, hostilities and social unrest, among others.

Severe weather conditions, natural disasters, hostilities and social unrest, terrorist activities, health epidemics or pandemics (or expectations about them) can adversely affect consumer spending and confidence levels or other factors that affect our results and prospects, such as commodity costs. Our receipt of proceeds under any insurance we maintain with respect to certain of these risks may be delayed or the proceeds may be insufficient to offset our losses fully.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the disclosure made in our Annual Report on Form 10-K for the year ended December 31, 2012 regarding this matter.

Item 4. Controls and Procedures

An evaluation was conducted under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2013. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Such officers also confirm that there was no change in the Company's internal control over financial reporting during the quarter ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

There were no material changes to the disclosure made in our Annual Report on Form 10-K for the year ended December 31, 2012 regarding these matters.

Item 1A. Risk Factors

This report contains certain forward-looking statements which reflect management's expectations regarding future events and operating performance and speak only as of the date hereof. These forward-looking statements involve a number of risks and uncertainties. These and other risks are noted in the Risk Factors and Cautionary Statement Regarding Forward-Looking Statements following Management's Discussion and Analysis.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities*

The following table presents information related to repurchases of common stock the Company made during the three months ended March 31, 2013:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾ | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾ |
|-----------------------|----------------------------------|------------------------------|---|---|
| January 1 - 31, 2013 | 1,119,640 | \$92.21 | 1,119,640 | \$ 9,148,788,407 |
| February 1 - 28, 2013 | 1,523,428 | 94.79 | 1,523,428 | 9,004,378,495 |
| March 1 - 31, 2013 | 1,088,649 | 97.94 | 1,088,649 | 8,897,756,727 |
| Total | 3,731,717 | \$94.94 | 3,731,717 | |

Subject to applicable law, the Company may repurchase shares directly in the open market, in privately negotiated transactions, or pursuant to derivative instruments and plans complying with Rule 10b5-1, among other types of transactions and arrangements.

On July 19, 2012, the Company's Board of Directors approved a share repurchase program, effective August 1, (1)2012, that authorizes the purchase of up to \$10 billion of the Company's outstanding common stock with no specified expiration date.

Table of Contents

Item 6. Exhibits

| Exhibit Number | Description |
|-------------------|--|
| (3) | <ul style="list-style-type: none"> (a) Restated Certificate of Incorporation, effective as of June 14, 2012, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2012. (b) By-Laws, as amended and restated with effect as of July 19, 2012, incorporated herein by reference from Form 8-K, filed July 20, 2012. |
| (4) | <p>Instruments defining the rights of security holders, including Indentures:*</p> <ul style="list-style-type: none"> (a) Senior Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996. (b) Subordinated Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996. |
| (10) | <p>Material Contracts</p> <ul style="list-style-type: none"> (a) Directors' Deferred Compensation Plan, effective as of January 1, 2008, incorporated herein by reference from Form 8-K, filed December 4, 2007.** (b) McDonald's Excess Benefit and Deferred Bonus Plan, effective January 1, 2011, as amended and restated March 22, 2010, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2010.** (c) McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Form 10-K, for the year ended December 31, 2001.** <ul style="list-style-type: none"> (i) First Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of January 1, 2002, incorporated herein by reference from Form 10-K, for the year ended December 31, 2002.** (ii) Second Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective January 1, 2005, incorporated herein by reference from Form 10-K, for the year ended December 31, 2004.** (d) 1975 Stock Ownership Option Plan, as amended and restated July 30, 2001, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2001.** <ul style="list-style-type: none"> (i) First Amendment to McDonald's Corporation 1975 Stock Ownership Option Plan, as amended and restated, effective as of February 14, 2007, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2007.** (e) 1992 Stock Ownership Incentive Plan, as amended and restated January 1, 2001, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2001.** |

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- (i) First Amendment to McDonald's Corporation 1992 Stock Ownership Incentive Plan, as amended and restated, effective as of February 14, 2007, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2007.**

 - (f) McDonald's Corporation Executive Retention Replacement Plan, effective as of December 31, 2007 (as amended and restated on December 31, 2008), incorporated herein by reference from Form 10-K, for the year ended December 31, 2008.**

 - (g) McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2009.**
 - (i) First amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-K, for the year ended December 31, 2008.**

 - (ii) Second Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan as amended, effective February 9, 2011, incorporated herein by reference from Form 10 K, for the year ended December 31, 2010.**

 - (h) McDonald's Corporation 2012 Omnibus Stock Ownership Plan, effective June 1, 2012, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2012.**

 - (i) McDonald's Corporation 2009 Cash Incentive Plan, effective as of May 27, 2009, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2009.**

 - (j) McDonald's Corporation Target Incentive Plan, effective January 1, 2013, filed herewith.**

 - (k) McDonald's Corporation Cash Performance Unit Plan, effective February 13, 2013, filed herewith.**
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Table of Contents

| Exhibit Number | Description |
|-------------------|---|
| (l) | Form of Executive Stock Option Grant Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Form 10-K, for the year ended December 31, 2011.** |
| (m) | Form of Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Form 10-K, for the year ended December 31, 2011.** |
| (n) | Form of Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, filed herewith.** |
| (o) | Form of Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, filed herewith.** |
| (p) | Form of Special CPUP Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, filed herewith.** |
| (q) | McDonald's Corporation Severance Plan, effective January 1, 2008, incorporated by reference from Form 8-K, filed December 4, 2007.** |
| (i) | First Amendment of McDonald's Corporation Severance Plan, effective as of October 1, 2008, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2008.** |
| (ii) | Second Amendment of McDonald's Corporation Severance Plan, effective as of December 5, 2011, incorporated herein by reference from Form 10-K, for the year ended December 31, 2011.** |
| (r) | Form of McDonald's Corporation Tier I Change of Control Employment Agreement, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2008.** |
| (s) | Amended Assignment Agreement between Timothy Fenton and the Company, dated January 2008, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2008.** |
| (i) | 2009 Amendment to the Amended Assignment Agreement between Timothy Fenton and the Company, effective as of January 1, 2009, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2009.** |
| (t) | Description of Restricted Stock Units granted to Andrew J. McKenna, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2012.** |
| (u) | Terms of the Restricted Stock Units granted pursuant to the Company's Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-K, for the year ended December 31, 2010.** |
| (v) | |

Executive Supplement describing the special terms of equity compensation awards granted to certain executive officers, pursuant to the Company's Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2011.**

(12) Computation of Ratios.

25

Table of Contents

| Exhibit Number | Description |
|-------------------|--|
| (31.1) | Rule 13a-14(a) Certification of Chief Executive Officer. |
| (31.2) | Rule 13a-14(a) Certification of Chief Financial Officer. |
| (32.1) | Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| (32.2) | Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| (101.INS) | XBRL Instance Document. |
| (101.SCH) | XBRL Taxonomy Extension Schema Document. |
| (101.CAL) | XBRL Taxonomy Extension Calculation Linkbase Document. |
| (101.DEF) | XBRL Taxonomy Extension Definition Linkbase Document. |
| (101.LAB) | XBRL Taxonomy Extension Label Linkbase Document. |
| (101.PRE) | XBRL Taxonomy Extension Presentation Linkbase Document. |

Other instruments defining the rights of holders of long-term debt of the registrant, and all of its subsidiaries for which consolidated financial statements are required to be filed and which are not required to be registered with the *Commission, are not included herein as the securities authorized under these instruments, individually, do not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. An agreement to furnish a copy of any such instruments to the Commission upon request has been filed with the Commission.

**Denotes compensatory plan.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

McDONALD'S CORPORATION
(Registrant)

May 1, 2013

/s/ Peter J. Bensen
Peter J. Bensen
Corporate Executive Vice President and
Chief Financial Officer

27